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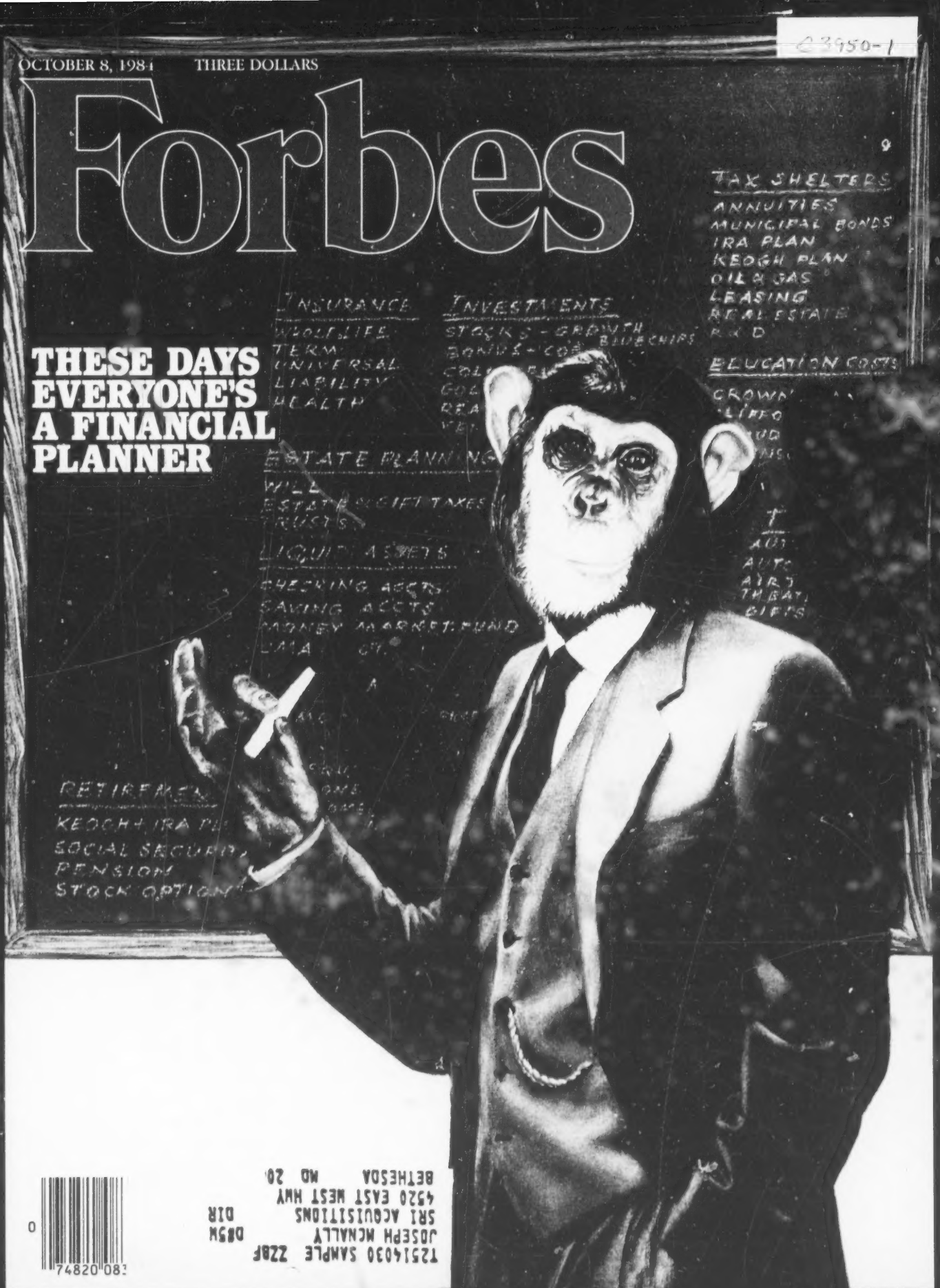
OCTOBER 8, 1984 THREE DOLLARS

# Forbes

## THESE DAYS EVERYONE'S A FINANCIAL PLANNER

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Forbes

October 8, 1984
Volume 134
Number 6

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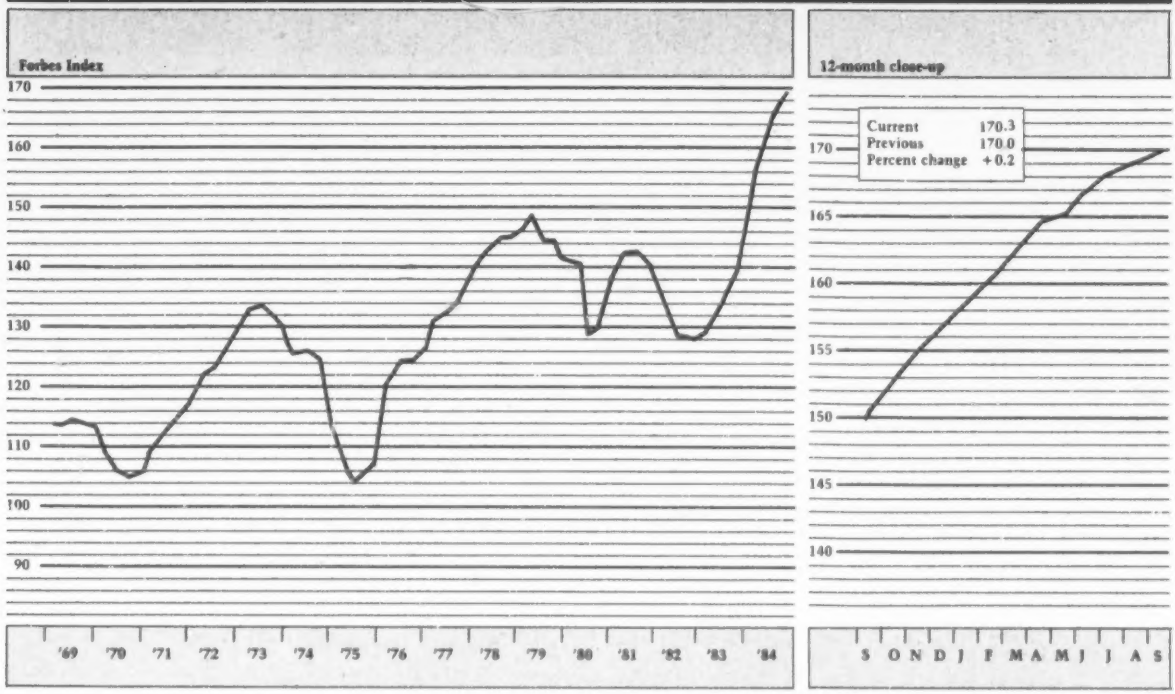
**Cover Illustration by: Eva Cellini**

# The Forbes Index



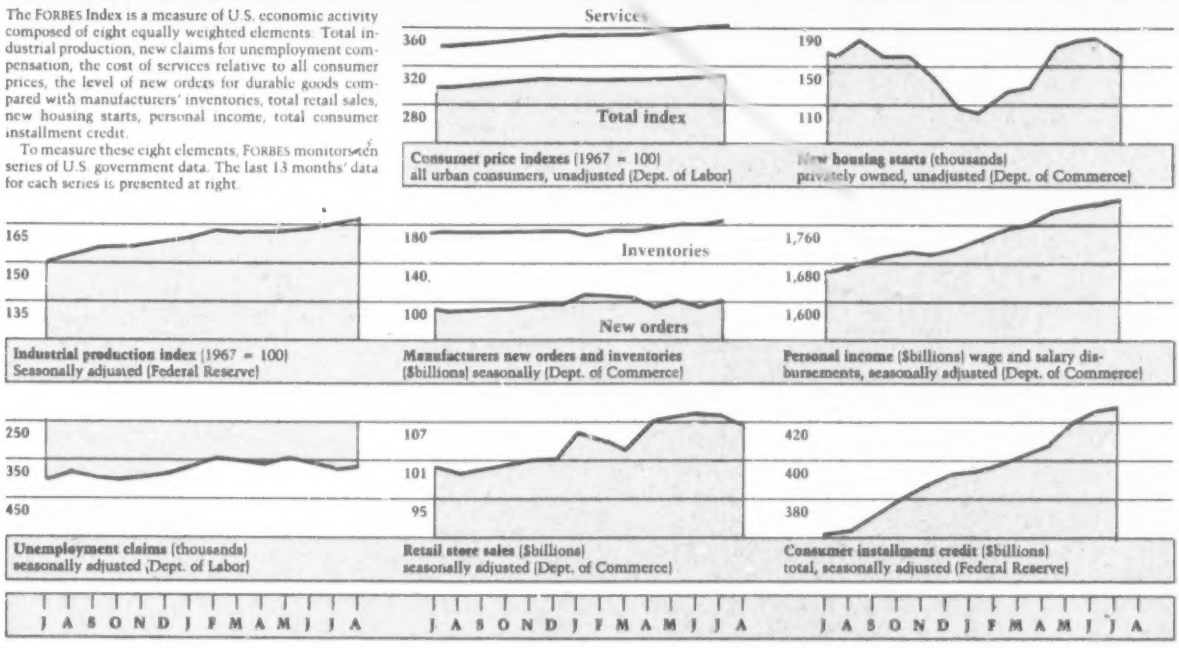

**Almost at a standstill.** The Forbes Index clearly confirms the fact that the nation's economy is slowing down. In the latest reporting period, for example, the Index posted only a 0.2% gain, which is the smallest advance in many months. Consumer installment credit, which has been expanding since the end of last year, registered a 1.65% month-to-month increase.

This growing debt burden could dampen spending in the months ahead. Although industrial production is 9.5% higher than it was 12 months ago, it rose only 0.24% in the last month. After a recent climb, new unemployment claims fell 2% and are 11.6% lower than they were at the same time last year. On a negative note, however, retail sales show a 0.85% month-to-month decline.

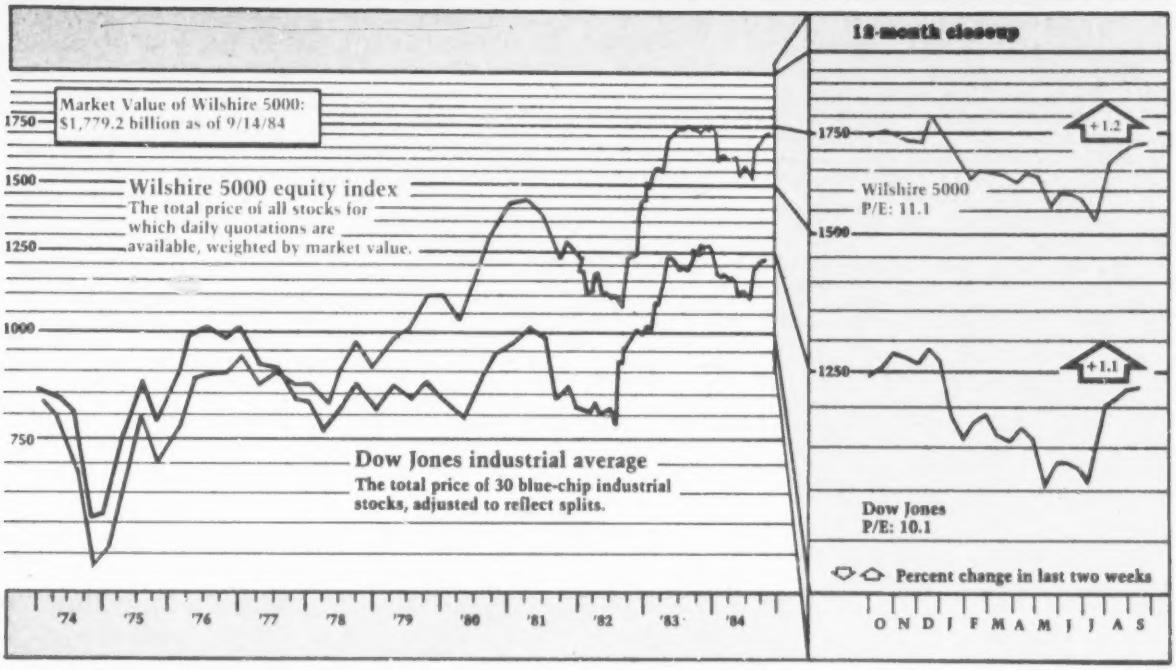
## The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



# The Forbes/Wilshire 5000 Review




**Slow and steady wins the race.** Early in the summer rally, Wall Street managed to post some splashy upward moves. Unfortunately, they were often followed by equally splashy reversals. Now the trading is less volatile and the trend is clearer. Gains come inch-by-inch—but they are less likely to be given back.

The Wilshire index shows that the market was up 1.2% for the two-week period and 2.8% for the four-week period. But blue chips are the clear leaders. That is one reason the Forbes 500 shows the sharpest two-week improvement, a 1.4% gain. The average Big Board share was up 1.2%, and the Dow industrials gained 1.1%.

Secondary stocks brought up the rear. The Amex recorded only a 0.5% increase, while the NASDAQ was up only 0.4%. A simlilar performance gap prevails over the longer term. The NYSE and the Forbes 500 show minimal improvement for the last 52 weeks. But NASDAQ stocks are off by more than 14%.

Even with the recent gains, the market has considerable ground to cover before reaching its old highs. Secondary stocks peaked in the summer of 1983; the Dow hit its high early in 1984. Present trading patterns could push blue chips into new territory by year-end, but it will take a dramatic change to do the same for NASDAQ stocks.

## Close-up On The Equity Markets

**Performance of six leading indexes**

| Percent change | Wilshire 5000 | Forbes 500[1] | Dow Jones industrials | NYSE Composite | Amex Market Value Index | NASDAQ Composite |
|---|---|---|---|---|---|---|
| in last 4 weeks | 2.8 | 2.9 | 2.1 | 2.8 | 4.1 | 2.1 |
| in last 52 weeks | –2.1 | 1.8 | 1.0 | 0.9 | –7.1 | –14.3 |

**Stock performance based on six key investor yardsticks**

| Percent change | Company size | | Volatility[2] | | P/E multiple | | Dividend yield | | Growth profile[3] | | Share price | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | large | small | high | low | over 25 | under 5 | over 7.5% | none | high | low | over $40 | under $4 |
| in last 4 weeks | 3.2 | 3.9 | 4.3 | 3.1 | 2.3 | 4.0 | 3.2 | 2.5 | 4.3 | 2.4 | 2.9 | 3.1 |
| in last 52 weeks | –0.7 | –8.7 | –13.3 | 7.5 | –18.4 | –0.2 | –4.6 | –9.7 | –12.8 | 7.3 | 4.6 | –15.9 |

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

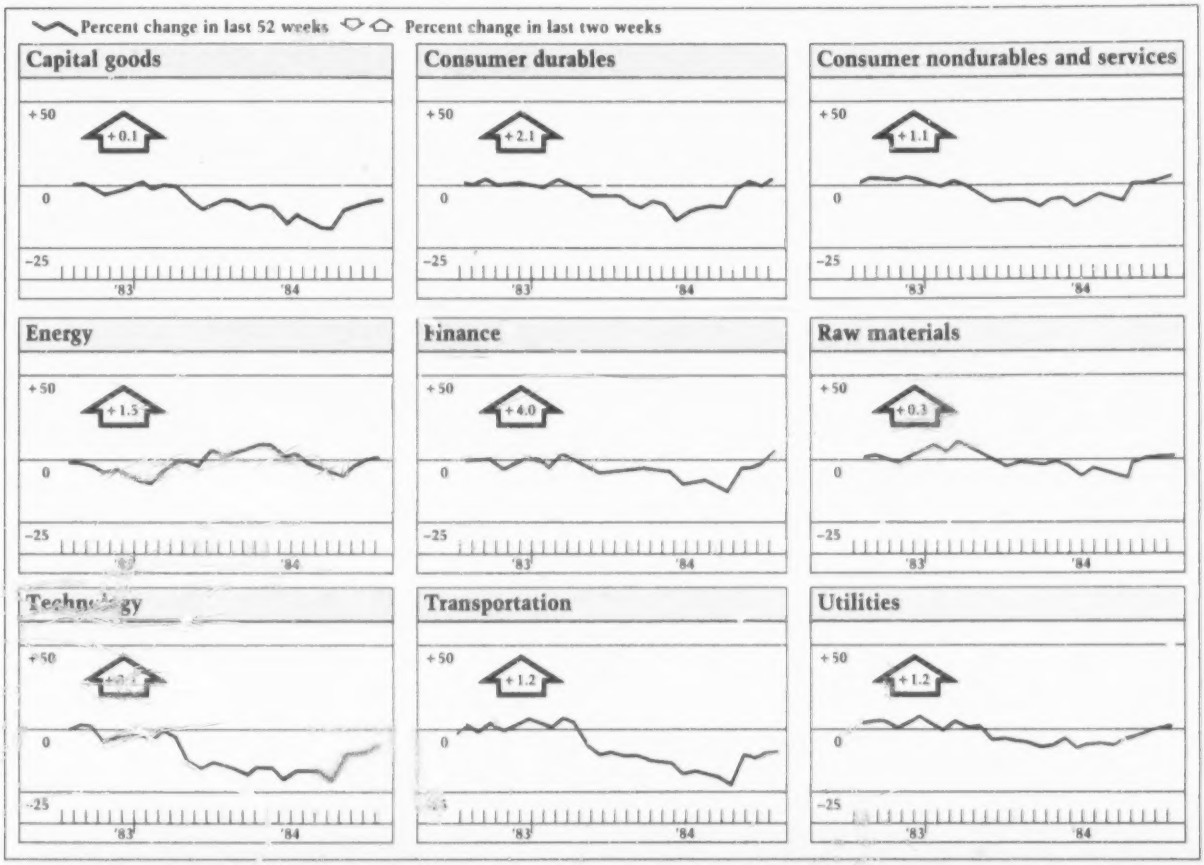
Note: All data for periods ending 9/14/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Shelley Dell

## Where The Action Is

**Blind faith.** With Wall Street, once more, reassured that the banking system is not in danger of imminent collapse, the finance sector strongly outperformed the market during the last two weeks. Consumer durables, meanwhile, registered the second best increase, a 2.1% gain, thanks to continued strength in auto sales.

The recovering energy group is up 1.5% for the last two weeks and 6% for the last four weeks. This sector also has the best 52-week record—up 4.5%. But the group is rebounding after years of decline. Unless supplies tighten drastically, these shares aren't likely to pace the market over the long term.




## What The Analysts Think

**At least they like something.** Analysts are still slashing 1984 estimates on a wide range of companies. Transportation shares continue to suffer the largest cuts. Technology stocks have also been out of favor of late. The good news? Wall Street's experts are still adding pennies to their forecasts for utility shares.

**Forecasting the Forbes 500**

| Performance period | Average earnings per share | P/E |
|---|---|---|
| latest 12 months | $3.01 | 10.8 |
| 1984 estimates | 3.89 | 8.9 |
| 1985 estimates | 4.66 | 7.2 |

| Rank based on change in estimate | Sector | Estimated 1984 EPS | % change in 1984 estimate in 2 weeks | % change in 1984 estimate in 4 weeks |
|---|---|---|---|---|
| 1 | Utilities | $3.51 | 0.26% | 0.37% |
| 2 | Consumer non-durables | 2.61 | -0.01 | -2.10 |
| 3 | Capital goods | 2.41 | -0.21 | -3.35 |
| 4 | Consumer durables | 3.36 | -0.79 | -1.06 |
| 5 | Energy | 2.63 | -1.14 | -1.60 |
| 6 | Finance | 3.45 | -1.49 | -0.72 |
| 7 | Raw materials | 2.66 | -1.60 | -1.52 |
| 8 | Technology | 2.01 | -1.98 | -2.91 |
| 9 | Transportation | 2.59 | -2.56 | -3.57 |

Earnings projections are equal-weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates, with a mean estimate greater than $0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 9/14/84. Prepared by Wilshire Associates, Santa Monica, Calif., Zacks Investment Research, Inc., Chicago, Ill.

Shelley Dell

*Shares in electronics companies have been losing voltage lately—which is why they may deserve a closer look.*

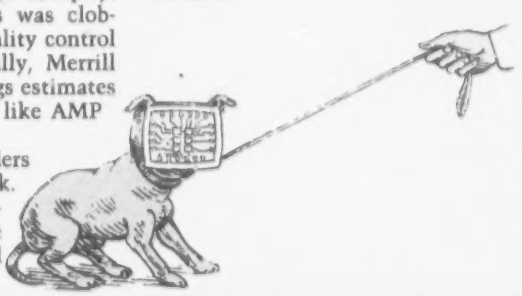
# Short circuit?

By Leslie Pittel

SEPTEMBER WASN'T A good month for electronics stocks. First, Gould surprised investors with the news that orders for its read-only memory chips had fallen abruptly. Then Texas Instruments was clobbered by questions of quality control from the Pentagon. Finally, Merrill Lynch lowered its earnings estimates for connector companies like AMP and Augat.

All this hits shareholders squarely in the pocketbook. Gould has lost $216.6 million in market value since its announcement. And on one particularly bleak day, Texas Instruments dropped from 135 to 128¼. AMP's share price declined by 4¼, off 12%. Such pain isn't new, either. Since the beginning of this year, electronics shares have trailed the market by a wide margin.

Chas. B. Slackman



As a result, multiples for this industry have collapsed. This time last year electronics stocks were trading at 33.8 times current earnings. Now their P/E ratio is only 21.1. This drop is all the more significant since earnings over the period have risen by 54%. Based on analysts' 1985 earnings estimates, these stocks now sell for only 12.1 times projected earnings.

What's going on? Some investors worry that these cyclical firms have already peaked. Pessimists even see the dawn of what they dub an "electronics recession." Merrill Lynch's Jerry Labowitz points to the slowing order pattern in the commercial side of the market, particularly among computer and peripheral customers.

Excess capacity is also a worry. Many electronics firms have been investing rapidly to increase production. But by the time they get new assembly lines ready, demand may be off. Some signs of this predicament may already be evident. Book-to-bill ratios, which indicate order strength relative to production capacity, are now declining.

But there are optimists, too. E.F. Hutton's Edward White Jr. sees much of the recent sellout as an overreaction. "I don't think earnings have reached their highs yet," he says. "We won't see a recession in electronics until at least 1986." He points out that earnings gains looked unusually impressive in percentage terms coming out of the recession. Sure, the spectacular comparisons are no longer

## How far the chips are down

**Many of these 65 electronics companies are selling near their 12-month lows. But analysts expect earnings to rise at least 25% next year. Based on those estimates, almost half these stocks now sell at P/Es of less than 10.**

| Company | Price recent | Price 52-week high low | Latest 12-month EPS | Current P/E | EPS estimate 1984 | EPS estimate 1985 | P/E based on 1985E | 5-year EPS growth | Book value | Yield |
|---|---|---|---|---|---|---|---|---|---|---|
| AMP | 31¼ | 39½–26½ | $1.87 | 16.7 | $2.16 | $2.63 | 11.9 | 6.5% | $ 7.84 | 2.0% |
| AVX | 23 | 30¼–16½ | 1.57 | 14.7 | 1.92 | 2.48 | 9.3 | –13.1 | 11.39 | 1.4 |
| Advanced Micro Devices | 37½ | 41⅛–25⅛ | 1.75 | 21.4 | 2.79 | 3.34 | 11.2 | 14.8 | 5.09 | — |
| Alpha Industries | 17 | 22⅞–12¼ | 0.82 | 20.7 | 0.99 | 1.26 | 13.5 | 13.3 | 7.28 | 0.3 |
| Analog Devices | 26 | 31½–19⅜ | 1.25 | 20.8 | 1.29 | 1.64 | 15.9 | 17.6 | 5.19 | — |
| Anaren Microwave | 10¼ | 12½– 7¼ | 0.45 | 22.5 | 0.45 | 0.62 | 16.3 | 34.9 | 4.47 | — |
| Anthem Electronics | 12¼ | 17 – 8⅛ | 0.95 | 12.9 | 1.27 | 1.65 | 7.4 | 7.3 | 4.57 | 0.3 |
| Applied Materials | 35½ | 42¼–21⅛ | 1.63 | 21.8 | 1.97 | 2.88 | 12.3 | –21.6 | 9.66 | — |
| Arrow Electronics | 22 | 32⅞–18 | 1.92 | 11.5 | 2.63 | 3.60 | 6.1 | –26.0 | 9.58 | 0.9 |
| Augat | 28⅛ | 47½–25¼ | 1.65 | 17.5 | 1.94 | 2.55 | 11.3 | 3.6 | 10.27 | 1.1 |

E: estimate.

*Source: The Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan via MicroScan Data on diskette from ISYS Corp.; Forbes*

## Statistical Spotlight

making headlines, but growth in profits is still positive.

Others gain encouragement from the new markets for semiconductors. Today, silicon wafers show up in everything from cars to telephones. "In every industry that you look at, electronics is becoming a key factor," says John Geraghty, at Dean Witter Reynolds. "That's a tremendous impetus to the continuing growth."

Consider personal computers. Despite the recent shakeout in computer manufacturing, demand for computers continues to climb by giant steps. IBM, for example, is expected to sell 2½ times as many personal computers in 1984 as it did last year. Every machine is full of chips.

To get a closer look at the industry, we searched Lynch, Jones & Ryan's

### How far the chips are down

| Company | Price recent | Price 52-week high low | Latest 12-month EPS | Current P/E | EPS estimate 1984 | EPS estimate 1985 | P/E based on 1985E | 5-year EPS growth | Book value | Yield |
|---|---|---|---|---|---|---|---|---|---|---|
| Avnet | 34¼ | 49⅛-27 | $2.44 | 14.2 | $2.46 | $3.17 | 11.0 | -3.1% | $14.49 | 1.4% |
| Boonton Electronics | 6 | 9½- 5 | 0.61 | 9.8 | 0.77 | 0.85 | 7.1 | NA | 4.71 | — |
| Burndy | 15 | 24½-12⅝ | 1.06 | 14.2 | 1.35 | 1.89 | 7.9 | -14.9 | 10.98 | 5.6 |
| Burr-Brown | 19½ | 24⅜-17⅛ | 1.07 | 18.2 | 1.29 | 1.74 | 11.2 | NA | 8.59 | — |
| CTS | 32⅞ | 47 -22 | 2.08 | 15.8 | 3.25 | 4.10 | 8.0 | -7.9 | 22.19 | 3.0 |
| Cubic | 17⅞ | 30⅛-13⅞ | 1.97 | 9.1 | 2.25 | 2.67 | 6.7 | 24.9 | 11.46 | 2.2 |
| Ducommun | 35½ | 47 -30 | 3.80 | 9.3 | 4.27 | 5.58 | 6.4 | -7.8 | 25.17 | 2.3 |
| EG & G | 34 | 37⅛-26⅛ | 1.66 | 20.5 | 1.89 | 2.30 | 14.8 | 18.6 | 7.47 | 1.2 |
| EIP Microwave | 12¼ | 13⅜- 9⅛ | 0.69 | 17.8 | 0.79 | 0.95 | 12.9 | NA | 2.37 | 0.8 |
| John Fluke Mfg | 28⅛ | 34⅛-24⅛ | 1.64 | 17.5 | 1.79 | 2.24 | 12.8 | 0.2 | 10.70 | — |
| Frequency Electronics | 19⅜ | 36 -15⅛ | 1.02 | 19.4 | 1.40 | 2.10 | 9.4 | 51.9 | 9.60 | — |
| GenRad | 24 | 45⅛-18 | 1.31 | 18.3 | 1.86 | 2.59 | 9.3 | -1.1 | 11.02 | 0.4 |
| General Instrument | 24⅞ | 40 -20⅛ | 0.97 | 25.4 | 1.82 | 2.57 | 9.6 | -2.5 | 19.29 | 2.0 |
| Genisco Technology | 4⅜ | 11⅛- 3⅞ | 0.01 | NM | 0.70 | 0.60 | 7.9 | -2.4 | 6.38 | — |
| Giga-tronics | 19⅜ | 25 -15 | 0.75 | 25.8 | 0.95 | 1.20 | 16.1 | NA | 2.95 | — |
| Gould | 25⅞ | 36⅞-23⅛ | 1.76 | 14.7 | 2.31 | 2.81 | 9.2 | -12.2 | 18.41 | 2.6 |
| Harris | 29¼ | 42⅛-22¾ | 2.02 | 14.5 | 2.01 | 2.64 | 11.1 | -11.9 | 19.51 | 3.0 |
| Hewlett-Packard | 37⅛ | 46⅛-31⅛ | 2.51 | 15.0 | 2.22 | 2.78 | 13.5 | 17.7 | 11.33 | 0.6 |
| Instron | 18¾ | 21⅝-16¾ | 0.60 | 31.3 | 1.90 | 2.40 | 7.8 | -25.3 | 10.18 | 1.5 |
| InterCom | 11¼ | 28½- 6⅞ | 0.33 | 33.7 | 0.38 | 0.71 | 15.7 | NA | 4.15 | — |
| Intel | 33¾ | 45⅛-25¼ | 1.60 | 21.1 | 1.99 | 2.60 | 13.0 | -4.2 | 10.56 | — |
| International Rectifier | 22⅞ | 26½-13⅜ | 0.88 | 26.0 | 0.90 | 1.90 | 12.0 | NA | 7.09 | — |
| Knogo | 13⅛ | 23 - 8⅞ | 0.74 | 18.4 | 0.92 | 1.14 | 12.0 | NA | 6.32 | — |
| Kollmorgen | 25¼ | 34 -22½ | 1.37 | 18.4 | 1.81 | 2.34 | 10.8 | -5.0 | 10.35 | 1.3 |
| Kulicke & Soffa Industries | 27¼ | 35⅛-12⅛ | 1.48 | 18.4 | 1.55 | 2.31 | 11.8 | -33.0 | 5.33 | 3.3 |
| Kyocera | 52⅛ | 62⅜-37¼ | 1.83 | 28.6 | 2.07* | 2.57 | 20.3 | 14.5 | NA | 0.6 |
| LSI Logic | 16⅞ | 25⅞-11¼ | 0.61 | 27.7 | 0.68 | 0.95 | 17.8 | NA | 6.98 | — |
| MTS Systems | 26 | 27 -18½ | 1.96 | 13.3 | 2.15 | 2.77 | 9.4 | -22.0 | 18.89 | 1.2 |
| Matrix Science | 27⅛ | 38¼-21½ | 1.65 | 16.8 | 1.68 | 2.24 | 12.4 | 17.8 | 6.48 | 0.4 |
| Molex | 33⅛ | 42¼-29 | 1.91 | 17.4 | 1.91* | 2.48 | 13.4 | 13.4 | 6.... | 9.0 |
| Monolithic Memories | 19⅞ | 30⅛-12⅜ | 1.19 | 16.7 | 1.31 | 1.72 | 11.6 | NA | 7.84 | — |
| Moore Products | 29¼ | 29¼-22½ | 1.20 | 24.4 | 1.95 | 3.00 | 9.8 | -12.5 | 19.77 | 3.0 |
| Motorola | 39¾ | 50 -29¼ | 2.86 | 13.9 | 3.23 | 3.88 | 10.2 | 3.7 | 17.01 | 1.6 |
| National Micronetics | 7⅜ | 18⅛- 6⅛ | 0.56 | 13.2 | 0.56* | 1.01 | 7.3 | NA | 5.70 | — |
| National Semiconductor | 14⅛ | 19⅜- 9½ | 0.66 | 21.8 | 1.39 | 1.88 | 7.6 | -17.8 | 4.23 | — |
| Nicolet Instrument | 13½ | 22⅛-10⅜ | 0.85 | 15.9 | 1.30 | 1.48 | 9.1 | -16.5 | 8.67 | 0.9 |
| Regency Electronics | 6⅛ | 20⅜- 5⅞ | 0.66 | 9.7 | 0.82 | 1.01 | 6.3 | 5.4 | 3.62 | 3.1 |
| Richardson Electronics | 22½ | 22½-11¼ | 1.24 | 18.1 | 1.25 | 1.55 | 14.5 | NA | 6.17 | — |
| Rogers | 27 | 37¼-23⅛ | 1.93 | 14.0 | 2.13 | 2.57 | 10.5 | 10.1 | 12.96 | 0.4 |
| SCI Systems | 18¼ | 30½-10¼ | 0.80 | 22.8 | 0.88 | 1.31 | 13.9 | 39.0 | 5.62 | — |

*1984 actual. NA: not available. NM: not meaningful. E: estimate.

*Source: The Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan via Micro/Scan Data on diskette from ISYS Corp.; Forbes.*

## How far the chips are down

| Company | Price recent | Price 52-week high low | Latest 12-month EPS | Current P/E | EPS estimate 1984 | EPS estimate 1985 | P/E based on 1985E | 5-year EPS growth | Book value | Yield |
|---|---|---|---|---|---|---|---|---|---|---|
| SFE Technologies | 13½ | 20¾–12½ | $0.73 | 18.5 | $1.24 | $1.74 | 7.8 | 19.3% | $7.57 | 0.7% |
| Scientific-Atlanta | 9 | 18 – 7¼ | 0.50 | 18.0 | 0.50* | 0.83 | 10.8 | –18.1 | 6.80 | 1.3 |
| Sensormatic Electronics | 7¾ | 38 – 5⅝ | 0.65 | 11.9 | 0.84 | 1.25 | 6.2 | 39.9 | 6.48 | 0.6 |
| Spectrum Control | 6¼ | 12⅛– 6⅛ | 0.36 | 17.8 | 0.50 | 0.70 | 9.6 | NA | 2.39 | 0.7 |
| Standard Microsystems | 20¾ | 30½–16 | 0.86 | 24.1 | 1.29 | 1.72 | 12.1 | 17.8 | 6.31 | — |
| Tech-Sym | 17¾ | 22⅜–13⅛ | 1.15 | 15.4 | 1.32 | 1.68 | 10.6 | 42.9 | 7.21 | — |
| Teradyne | 31⅞ | 39⅛–21⅛ | 1.37 | 20.3 | 1.81 | 2.42 | 13.2 | –0.4 | 8.57 | — |
| Texas Instruments | 128¼ | 149½–101 | 5.51 | 23.3 | 13.89 | 15.95 | 8.0 | –11.9 | 55.99 | 1.6 |
| Tracor | 25⅛ | 29⅛–18½ | 1.89 | 13.4 | 2.03 | 2.39 | 10.6 | 12.5 | 10.14 | 1.3 |
| Unitrode | 33 | 36⅞–22 | 1.51 | 21.9 | 1.66 | 2.08 | 15.9 | 16.3 | 7.45 | 0.6 |
| Varian Associates | 41⅛ | 61½–30¼ | 2.55 | 16.1 | 2.77 | 3.60 | 11.4 | 17.5 | 16.93 | 0.6 |
| Varo | 12¼ | 19⅜– 9½ | 1.14 | 10.7 | 1.25 | 1.60 | 7.7 | –6.8 | 11.09 | 3.3 |
| Vishay Intertechnology | 19¼ | 20⅜–14 | 1.57 | 12.3 | 1.62 | 1.97 | 9.8 | 8.3 | 10.19 | — |
| Wavetek | 6½ | 16¼– 5⅝ | 0.42 | 15.5 | 0.39 | 0.69 | 9.4 | 3.6 | 8.00 | — |
| Wyle Laboratories | 15½ | 25⅜–10¾ | 1.60 | 9.7 | 1.79 | 2.14 | 7.2 | –25.2 | 10.32 | 2.1 |

NA: not available. E: estimate. *1984 actual.

*Source: The Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan via Micro/Scan Data on diskette from ISYS Corp., Forbes.*

## Statistical Spotlight

Institutional Brokers Estimate System for electronics stocks and came up with the list beginning on page 250. Our group of 65 stocks includes only those companies with 1985 consensus earnings estimates that are 25% above latest 12-month earnings. In addition, we included only those companies with positive earnings for the current period.

Based on 1985 estimates, 28 of these stocks are selling at a P/E multiple less than 10. This is a bargain multiple for the electronics industry—if, of course, the analysts are on the mark. Many of these stocks are also selling close to their 52-week lows. But notice that nearly all these firms trade well above book value. And remember that these stocks are highly volatile.

Electronics companies, Geraghty concludes, are best suited to "investors with strong stomachs." ■

*Everyone talks about the Dow, but few people understand it. Even fewer realize which Dow stocks have the real clout.*

# Deep inside the Dow

**By Steve Kichen**

SOPHISTICATED INVESTORS realize that the Dow Jones industrial average is a buggy-whip indicator. It includes only a few stocks and isn't weighted by market value. But the Dow is the market for millions of people, so it pays to know what makes the index tick.

In the days before calculators, not to mention computers, it was tough work to track stock market performance. Back in 1884 Charles Dow pushed technology to the limit when he began adding up the share prices of 11 big companies.

By 1928 the 20-stock Dow industrials had already become a household word. But Dow Jones, which publishes similar indicators for transportation and utilities, wanted its bellwether to reflect the broader market. So the firm added 10 new stocks.

The Dow, however, couldn't fly on the day it included 30 stocks instead of 20. So a clever mathematician suggested dividing the new total by a number that would make it consistent with the old one. The magic divisor turned out to be 16.67.

Thus began an adjustment process that has now become complex. Over the years there have been stock splits, spinoffs and distributions. Dow Jones also replaces companies, with the goal of having 30 stocks that are a mirror of American industry. Today, for example, the Dow industrials account for 20% of the market's total equity value. But all these changes mean tinkering with the divisor.

Only months after the Dow was expanded, for example, National Cash Register replaced Victor Talking Machine when RCA took over Victor. Since NCR was a lower-priced stock, the divisor went down. Whenever a